

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION AND NOTICE OF THE)	
AQUA CORPORATION (KENTUCKY WATER)	
SERVICE CO., INC.) FOR AN ADJUSTMENT)	CASE NO. 89-340
OF RATES IN MIDDLESBORO AND CLINTON,)	
KENTUCKY)	

O R D E R

IT IS ORDERED that Aqua Corporation ("Aqua") shall file an original and 12 copies of the following information with the Commission, with a copy to all parties of record, by May 30, 1990. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and individual operations, separately. If the information cannot be provided by this date, Aqua should submit a

motion for an extension of time stating the reason an extension is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

1. In Case No. 8370,¹ Kentucky Water Service Company's last general rate case, Contributions in Aid of Construction ("CIAC"), Customer Advances, and Deferred Taxes were recognized as sources of cost free capital and, therefore, deducted from rate base. Explain why Aqua proposes the Commission deviate from this practice.

2. In Case No. 10481,² the Commission advised all jurisdictional utilities that "adjustments for post test-period additions to plant in service should not be requested unless all revenues, expenses, rate base and capital items have been updated to the same period as the plant additions." Has Aqua made these adjustments? If yes, list where these adjustments were made and the dollar amount. Provide all documentation supporting the adjustments.

3. In response 18b to the Commission's March 14, 1990 Order, Aqua estimated that its post test-period construction of the 16-inch supply main will be completed by July 1989. When did this construction begin?

¹ Case No. 8370, Notice of Kentucky Water Service Company, Inc., of Adjustment of Water Rates in Somerset, Middlesboro, and Clinton, Kentucky, and Environs, on November 9, 1981, Order dated April 9, 1982.

² Case No. 10481, Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on February 2, 1989, Order dated August 22, 1989.

4. What impact will the 16-inch water main have on Middlesboro's operating revenues and expenses?

5. Refer to page 3 of J. David Whitehouse's direct testimony:

a. A reference is made to a 24-inch back-up supply main which was taken out of service due to hill slides. When was this main taken out of service? Has Aqua reduced utility plant in service, accumulated depreciation, and depreciation expense to reflect the retirement of the 24-inch back-up supply main? If yes, provide the supporting journal entries.

b. Mr. Whitehouse stated that in January 1989 another hill slide destroyed the remaining 8-inch back-up supply main. Has Aqua reduced utility plant in service, accumulated depreciation, and depreciation expense to reflect the retirement of the 8-inch back-up supply main? If yes, provide the supporting journal entries.

c. Provide a schedule of the expenses incurred during the test-period for maintaining the 8-inch back-up main.

d. Was Middlesboro compensated (e.g., insurance reimbursement) for the loss of the 24-inch and 8-inch back-up supply mains? If yes, what was the source and the amount of the compensation for each supply main.

6. Refer to response 18a to the Commission's March 14, 1990 Order:

a. Middlesboro's unamortized plant acquisition adjustment of \$293,272 resulted when Aqua purchased the assets of Kentucky

Water Service. Explain why Middlesboro's rates should increase due to a change in ownership.

b. What benefits have Middlesboro's customers received from Aqua's acquisition?

7. Refer to response 18d to the Commission's March 14, 1990 Order:

a. Middlesboro has included additional capital of \$88,385 in its test-period capital structure. Provide an explanation of what this amount represents and how was it determined.

b. Based on Middlesboro's capital structure of \$2,884,640, the requested rate of return of 10.5 percent, and imbedded cost of debt, impute the rates of return for all Middlesboro's capital components as shown in Format 7b (include all work papers and calculations).

c. Per Exhibit 13, page 1 of 2 of Aqua's application, Middlesboro's rate base is \$3,165,276. Provide a reconciliation of this amount with Middlesboro's capital structure of \$2,884,640.

8. Refer to response 19 to the Commission's March 14, 1990 Order:

a. Clinton has included additional capital of \$164,788 in its test-period capital structure. Provide an explanation of what this amount represents and how was it determined.

b. Based on Clinton's capital structure of \$440,159, the requested rate of return of 10.5 percent, and imbedded cost of debt, impute the rates of return for all Clinton's capital components as shown in Format 7b (include all work papers and calculations).

c. Per Revised Exhibit 13a, page 1 of 2 of Aqua's application, Clinton's rate base is \$384,188. Provide a reconciliation of this amount with Clinton's capital structure of \$440,159.

9. Aqua's requested rate of return of 10.5 is based on the cost of funding Middlesboro's post test-period plant addition. Explain why a single capital component that represents approximately 5.2 percent of Middlesboro's capital structure should be the sole basis for Aqua's requested rate of return?

10. In response 37 to the Commission's March 14, 1990 Order, Aqua failed to fully respond to the Commission's question and provided its response in the wrong format. In order to properly evaluate Middlesboro's and Clinton's salary adjustments, provide the employee data for the test period and the 12 months preceding the test period, as shown in Format 10.

11. Refer to Exhibit 10, page 5 of 7 of Aqua's application, Middlesboro's pro forma adjustment for increased rents in the amount of \$1,200:

a. Explain the purpose of the rent and the amount incurred during the test period.

b. When did the rent increase occur?

12. Refer to Exhibit 10, page 5 of 7, and Revised Exhibit 10a, page 5 of 6 of Aqua's application, adjustment for contract services:

a. Provide a copy of the contracts.

b. Provide the basis for the allocation of the contract service expense between Middlesboro and Clinton.

13. Refer to Exhibit 10, page 6 of 7, and Revised Exhibit 10a, page 6 of 6 of Aqua's application, adjustment for amortization of rate case expense:

a. Provide a detailed analysis of rate case expense. At a minimum the analysis should include the hourly rate, a description of the duties performed, and the estimated time to perform each duty.

b. Provide the basis for allocating rate case cost.

14. In Exhibit 10, page 6 of 7 of its application, Aqua proposed to increase depreciation expense by \$12,297 to reflect depreciating its post test-period plant addition in the amount of \$150,000 over 40 years. In order to match rate base with operating revenues and expenses, has Aqua proposed a similar adjustment to accumulated depreciation?

15. Provide a copy of Aqua's test-period depreciation schedule.

16. Is Aqua aware the Commission uses interest synchronization to arrive at interest expense for income tax purposes. If yes, does Aqua agree with this policy? Explain.

17. Do Middlesboro's test-period operating expenses include surcharge payments to Fern Lake? If so, provide the amount and the account in which they are recorded.

18. Refer to response 9 to the Commission's March 14, 1990 Order:

a. Account No. 13103-02-0 Cash - KWS - Middlesboro, page 2 of 10, decreased from \$159,338 in April 1989 to \$9,024 in June 1989. Provide an explanation for this decrease.

b. Account No. 13106-02-0 Cash - Fern Lake, page 2 of 10, has a balance of \$37,352 during the test period. Provide an explanation of this account.

c. Account No. 23606-02-0 Tax Accrued - Deferred - Middlesboro, page 3 of 10, has a credit balance of \$165,803 in July 1989 and zero balance for the remainder of the test period. Provide an explanation as to why this account was reduced to a zero balance.

d. Account No. 13103-03-0 Cash - KWS - Clinton, page 5 of 10, decreased from \$225,947 in April 1989 to \$55,653 in June 1989. Provide an explanation for this decrease.

e. Account No. 23606-03-0 Tax Accrued - Deferred - Clinton, page 6 of 10, has a credit balance of \$24,269 in July 1989 and zero balance for the remainder of the test-period. Provide an explanation as to why this account was reduced to a zero balance.

19. Refer to response 11 to the Commission's March 14, 1990 Order:

a. Account No. 25300-02-0 Deferred Taxes - Middlesboro, page 5 of 8, fluctuates from a credit of \$43,495 in June 1989 to a debit of \$2,858 in July 1989 to a credit of \$162,945 in August 1989. Provide a detailed explanation of these fluctuations.

b. Account No. 25300-03-0 Deferred Taxes - Clinton, page 6 of 8, fluctuates from a credit of \$10,648 in June 1989 to a debit of \$107 in July 1989 to a credit of \$24,162 in August 1989. Provide a detailed explanation of these fluctuations.

c. Item V, Customer Advances Case 313 - Middlesboro, page 8 of 8, in the amount of \$54,553. Did Aqua report the customer

advance as taxable income? If yes, did it result in the payment of additional federal income taxes?

20. In response 24a(2) to the Commission's March 14, 1990 Order, Aqua calculated deferred taxes - other of \$19,619 which includes deferred taxes on CIAC. Was the CIAC received prior to 1986?

21. In response 30 to the Commission's March 14, 1990 Order, Aqua provided the payee, account charged, and the amount charged but failed to provide the basis of the amount charged and a description of the service provided. Provide this information.

22. Refer to Exhibit 13, page 2 of 2, and Revised Exhibit 13a, page 2 of 2 of Aqua's application. Aqua calculated the revenue requirements for Middlesboro and Clinton, but failed to "gross-up" its requirements to recognize income taxes. Explain why this was not done.

23. Is the Fern Lake surcharge of \$.4593 per 1,000 gallons shown in the billing analysis?

24. The monthly statement of operations shows other sales to public authorities. Are such sales at the same rates as for residential, commercial, and industrial customers. If not, provide a breakdown of gallons sold, rate, and to whom the water is sold.

25. Are the gallons sold for the Pulaski County area at \$1.25 per 1,000 gallons included in the billing analysis?

26. Provide the number of public and private hydrants broken down by monthly rate.

27. Are all current non-recurring charges compensatory?

Done at Frankfort, Kentucky, this 11th day of May, 1990.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Kenneth C. Crayton
Executive Director

AQUA CORPORATION

Case No. 89-340

Calculation of Rate of Return Based on Rate Base

<u>Class of Capital</u> (a)	<u>Amount</u> (b)	<u>Percent of Total</u> (c) ¹	<u>Cost Rate</u> (d)	<u>Weighted Cost Rate</u> ² (e)
Long-Term Debt				
Pro Forma Debt				
Common Stock				
Additional Capital				
Earned Surplus				

¹Line Item Amount (Col. b) - Total Amount. (Col. b).²Col. c Times Col.d; Total e = Requested Rate of Return of 10.5 Percent.

AQUA CORPORATION

CASE NO. 89-340

Schedule of Employees Hours Worked and Wages Paid Per Account

Middlesboro

<u>Employee Name</u>	<u>Source of Supply & Pumping - Operations</u>		<u>Water Treatment Operations</u>		<u>Water Treatment Maintenance</u>		<u>Transmission & Distribution - Operations</u>	
	<u>Hours</u>	<u>Salary</u>	<u>Hours</u>	<u>Salary</u>	<u>Hours</u>	<u>Salary</u>	<u>Hours</u>	<u>Salary</u>

AQUA CORPORATION

CASE NO. 89-340

Schedule of Employees Hours Worked and Wages Paid Per Account

Middleboro

<u>Employee Name</u>	<u>Transmission & Distribution - Maintenance</u>		<u>Customer Accounts</u>		<u>Administrative & General</u>		<u>Capitalized Wages</u>	
	<u>Hours</u>	<u>Salary</u>	<u>Hours</u>	<u>Salary</u>	<u>Hours</u>	<u>Salary</u>	<u>Hours</u>	<u>Salary</u>

AQUA CORPORATION

CASE NO. 89-340

Schedule of Employees Hours Worked and Wages Paid Per Account

Clinton

<u>Employee Name</u>	<u>Source of Supply & Pumping - Operations</u>		<u>Water Treatment Operations</u>		<u>Water Treatment Maintenance</u>		<u>Transmission & Distribution - Operations</u>	
	<u>Hours</u>	<u>Salary</u>	<u>Hours</u>	<u>Salary</u>	<u>Hours</u>	<u>Salary</u>	<u>Hours</u>	<u>Salary</u>

AQUA CORPORATION

CASE NO. 89-340

Schedule of Employees Hours Worked and Wages Paid Per Account

Clinton

<u>Employee Name</u>	<u>Transmission & Distribution - Maintenance</u>		<u>Customer Accounts</u>		<u>Administrative & General</u>		<u>Capitalized Wages</u>	
	<u>Hours</u>	<u>Salary</u>	<u>Hours</u>	<u>Salary</u>	<u>Hours</u>	<u>Salary</u>	<u>Hours</u>	<u>Salary</u>